TOWN OF HERNDON, VIRGINIA

RESOLUTION

NOVEMBER 16, 2021

Resolution- to adopt the Investment and Portfolio Policy for the Town of Herndon and to establish an Investment Oversight Committee.

THEREFORE, BE IT RESOLVED that the Town Council of the Town of Herndon, Virginia hereby:

1. Adopts the Investment and Portfolio Policy of the Town of Herndon, Virginia dated November 16, 2021, as the official investment policy of the Town and charges the Town Manager and Director of Finance with its implementation and with the establishment of the Investment Oversight Committee.

2. The Town Council Appoints one member of the governing body to sit on the Investment Oversight Committee. This appointment will be Councilmember Jasbinder Singh.

3. This resolution shall be effective on and after the date of its adoption.

This is certified to be a true and accurate copy of Resolution 21-G-86 adopted at a legally convened meeting of the Town Council of the Town of Herndon on November 16, 2021.

Margie C. Tacci, Deputy Town Clerk

TOWN OF HERNDON, VIRGINIA 1879

Attached for reference is the 'Investment and Portfolio Policy of the Town of Herndon, Virginia dated November 9, 2021.'

TOWN OF HERNDON, VIRGINIA
INVESTMENT AND PORTFOLIO POLICY

November 16, 2021

1.0 POLICY

This policy for the Town of Herndon, Virginia (The Town) shall establish guidelines to invest public funds which will safely preserve principal, provide adequate liquidity for cash flow needs, and optimize returns on investment while adhering to all applicable federal, Virginia State Laws, and Local Statutes governing the investments of public funds.

SCOPE

This investment policy applies to all investment activity of public funds for the Town These funds are accounted for in the Town of Herndon's Annual Comprehensive Financial Report and include: the General Fund, the Water and Sewer Fund, the Chestnut Grove Cemetery Fund, the Golf Course Fund, the Downtown Parking Enterprise Fund, the Capital Projects Fund, and the American Rescue Recovery Act Fund, and other funds that may be created from time to time, with the exclusion of the Supplemental Retirement Plan for Police Employees, shall be administered in accordance with the provisions of these policies.

OBJECTIVES

The overall objectives of this policy for the Town are: Safety of principal is the foremost objective of the Town. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities default or erosion of market value. Liquidity is the second objective of the Town to ensure adequate coverage of expenditures or obligations when due to protect against losses that might occur in the event of sales or liquidations of investments prior to maturity.

The Town's cash management portfolio shall be designed with the third objective of regularly exceeding the average return on three-month U.S. Treasury bills, or the average rate on Federal funds, whichever is higher. These indices are considered benchmarks for riskless investment transactions and therefore comprise a minimum standard for the portfolio's rate of return. The investment program shall seek to augment returns above this threshold, consistent with risk limitations identified here and prudent investment principles.

The Town's outside investment managers are encouraged to represent the Town's best interests in seeking to remove constraints to the efficient investment of its funds.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction that might impair public confidence in the Town's ability to govern effectively.

Attachment
21-G-86

TOWN OF HERNDON, VIRGINIA
INVESTMENT AND PORTFOLIO POLICY

November 16, 2021

INVESTMENT OVERSIGHT COMMITTEE

There shall be an investment oversight committee composed of one member of Town Council, the Town Manager, a member of the Town Attorney's office, the Director of Finance for the Town, and one member of the public. The Town Council will appoint the Council Member at a public meeting. The Town Manager will appoint the member from the Town Attorney's Office, the Director of Finance and the member of the public. Members of the committee shall meet periodically as set forth by the committee to review general investment strategies, monitor results; discuss internal controls, and economic updates. The committee shall establish its own rules and procedures.

DELEGATION OF AUTHORITY

The Town Manager delegates management responsibility for the investment program to the Director of Finance (Director) who, after consultation with the Town Manager and subsequent approval by the Town Council, shall establish written procedures for the operation of the investment program, consistent with this investment policy. These procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction for the Town except as provided under the terms of this policy and the procedures established by the Director. The Director shall be responsible for the transactions undertaken and shall establish a system of internal controls to regulate the activities of subordinate officials.

STANDARD OF PRUDENCE

Public Funds held by the Commonwealth, public officers, municipal corporations, political subdivisions, and any other public body of the commonwealth shall be held in trust for the citizens of the Commonwealth. Any investments of such funds pursuant to the provision of the code of Virginia § 2.2-4514, shall be made solely in the interest of the citizens of the Commonwealth and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The Town shall relieve investment officers acting in accordance with law and written procedures and exercising due diligence of personal responsibility for credit risk or market price changes, provided deviations from expectations are reported to the Town Manager within two weeks of discovering such deviations and appropriate action is taken to control adverse developments.

ETHICS AND CONFLICTS OF INTEREST

Officers and employees involved in the investment process shall refrain from any personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Consistent with the State and Local Government Conflict of Interest Act (Sec. 2.2-3100 thru 2.2-3127 Code of Virginia), employees and investment officials shall disclose or otherwise take appropriate action with respect to any personal interest in any financial institution transaction or contract related to Town investments. Further, such employees and investment officials shall file a Statement of Economic Interest with the Town Clerk by January 15 of each calendar year, as described in Sec. 2.2-3115 Code of Virginia. Employees and officers shall subordinate their personal investment transactions to those of the Town, particularly regarding the timing of purchases and sales.

SAFEKEEPING CUSTODY AND INTERNAL CONTROL

To protect against potential fraud and embezzlement, the assets of the Town shall be secured through third-party custody and safekeeping procedures. Bearer instruments shall be held only through third-party institutions. Investment officials shall be bonded to protect the public against possible embezzlement, malfeasance, nonfeasance, or negligence. Collateralized securities, such as repurchase agreements, shall be delivered to the Town or third-party agent. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third-party custodial safekeeping. The Finance Director shall establish a system of internal controls, which shall be documented in writing. The internal control structure shall be designed to minimize or prevent loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Town.

REPORTING: INTERIM AND ANNUAL

The Finance Director shall submit to the Town Manager and the Investment Committee a quarterly investment report that summarizes the status of the current investment portfolio and transactions made over the last quarter. The report will include but not limited to investment holdings, issuer's list, monthly portfolio averages, interest earnings, rate of return, and cash flows. The report will explain the year-to-date total investment return and compare the return with budgetary expectations. The report will include an appendix that discloses all transactions during the reporting period. If warranted, the report will indicate any areas of policy concern and suggested or planned revision of investment strategies. Within 180 days after the end of the fiscal year, the Finance Director shall present to the Town Manager and the Investment Committee an annual report on the investment program and investment activity. The report shall be based on the audited numbers of the most recently concluded fiscal year. The annual report will include 12-month comparisons on return and, if warranted, suggest policies and improvements that could be made in the investment program. Information contained in the report will be sufficiently detailed to permit an independent evaluation of the performance of the investment program.

SUITABLE AND AUTHORIZED INVESTMENTS

As a unit of local government in the Commonwealth of Virginia, the Town is governed by the <u>Virginia Security for Public Deposits Act</u>, 2.2-4400 through 2.2-4411 and the <u>Investment of Public Funds</u> as described in Sec. 2.2-4500 through 2.2-4517 of the Code of Virginia. The following securities may be purchased for the Town's investment portfolio:

Investment Instrument	VA Code	Minimum Rating or qualifications
U.S. Treasury Obligations	2.2-4501 (A1, A2)	
Negotiable Certificate of Deposits	2.2-4509	Moody's P-1 and S&P A-1 if less than a year; AA rating if greater than a year
Non-Negotiable Certificates of Deposit	2.2-4401	Must meet Virginia Security for Public Deposits Act
Certificate of Deposit Account Registry Service (CDARS)	2.2-4518	Must meet Virginia Security for Public Deposits Act and collateralization requirements
Bank Demand Deposits	2.2-4518	Must meet Virginia Security for Public Deposits Act
Insured Cash Sweeps (ICS)	2.24518	Must meet Virginia Security for Public Deposits Act
Repurchase Agreements	2.24507	Collateral Obligations of the U.S. and Master Repurchase Agreement
US Government Agency Securities and Government Sponsored Corporations	2.2-4501 (A2)	Must have at least 2 of the following: Moody's P1, S&P A-1, or Fitch F-1
High Quality Corporate Notes	2.2-4510	Must have at least 2 of the following: Moody's Aa, S&P AA, or Fitch AA
Municipal Obligations	2.2-4510	
Prime Quality Commercial Paper	2.2-4502	Must be Moody's P1 and S&P A-1
VML/VaCO Virginia Investment Pool	2.2-4513.1	Investments in Pool must adhere to Virginia Investment of Public Funds codes
Local Government Investment Pool (LGIP)	2.2-4513.1	Investments in Pool must adhere to Virginia Investment of Public Funds codes
Bankers Acceptances	2.2-4504	Must be Moody's P1 and S&P A-1
State Non-Arbitrage Pool (SNAP)	2.2-4700	SNAP Program
Mutual Funds	2.2-4508	One of: S&P AAA, Fitch AAA, or Moody's Aaa

All investments will be in the name of the Town and will name the specific fund from which the instrument was purchased. Safekeeping account receipts will be held by the Finance Department or designated custodial agent.

AUTHORIZED FINANCIAL INSTITUTIONS, DEPOSITORIES, AND BROKER/DEALERS:

The Director of Finance or person(s) responsible will maintain a list of financial institutions authorized to provide investment services. In addition, a list will be maintained for approved or security brokers/dealers selected by credit worthiness that are authorized to provide investment services in the State of Virginia. These may include "primary" dealers or regional dealers that qualify under the Securities & Exchange Commission Rule 15C3-1. No public deposit shall be made except in a qualified public Depository as established by Virginia laws. Broker and Dealers would need to be qualified by the Town of Herndon through a certification process. This process will be written and determined by the Director of Finance to include but not limited to requesting:

- Audited financial statements,
- National Association of Security Dealers Certification
- Trading Resolution
- Proof of Insurance
- Virginia State registration
- Completed broker/dealer questionnaire
- Proof of insurance, and in business for a minimum of 5 years,
- Certification of having read Town of Herndon's Investment Policy

Financial Institutions will need to meet the qualifications of the Virginia Security for Public Deposits Act and be a "Qualified Public Depository."

Employees of any firm or financial institution offering securities or investments to the Town shall be trained in the precautions appropriate to public-sector investments and shall be required to familiarize themselves with the Town's investment objectives, policies, and constraints.

An Annual review of the financial condition and registrations of qualified bidders will be conducted by the Director of Finance or person(s) authorized.

INVESTMENT DIVERSIFICATION

The Town will diversify use of investment instruments to minimize risks due to a concentration in specific instruments, individual financial institutions, or maturities. Percentages will be determined based on cost basis at the time of purchase of portfolio holdings.

Investment Instrument	Maximum Allowable Allocation (%) (at the time of purchase)
U.S. Treasury Obligations	100 %
Negotiable Certificates of Deposit	25%
Non-Negotiable Certificates of Deposit	75
Certificate of Deposit Account Registry Services (CDARS)	75%
Bank Demand Deposits	50%
Insured Cash Sweeps (ICS)	75%
Repurchase Agreements	30 %
US Government Agency Securities and Government Sponsored Corporations	80%
High Quality Corporate Notes	50 %
Municipal Obligations	50 %
Prime Quality Commercial Paper	35 %
VML/VaCO Virginia Investment Pool	50 %
Local Government Investment Pool (LGIP)	100 %
Bankers Acceptances	10 %
State Non-Arbitrage Pool (SNAP)	100 % of Bond Proceeds Only
Mutual Funds	15%

Diversification by Financial Institution:

Banker's Acceptances (BAs)	Not more than 25% of the Town's total portfolio may be invested with any one institution
Repurchase Agreements (Repos)	Not more than 25% of the Town's total portfolio may be invested with any one institution
Certificates of Deposit (CDs) – Commercial Banks/Savings and Loan Associations	Not more than 50% of the Town's total portfolio may be invested with any one institution
Commercial Paper	Not more than 5% of the Town's total portfolio may be invested with any one issuer
Local Government Investment Pool	No restrictions
Open-end Investment Fund	No restrictions

No other types of investments are permitted.

MATURITIES AND VOLATILITY

To the extent possible, the Town of Herndon will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Town of Herndon will not directly invest in securities maturing more than 5 years from the date of purchase. Reserve funds may be invested in securities exceeding 5 years if the maturity of such investments is made to coincide as nearly as practical with the expected use of the funds.

Maximum Maturity	Allowable Allocation (%)
12 months or less	100% of Portfolio
Great than 12 months to 24 months	15% of Portfolio
Greater than 24 months to 60 months	10 % prior fiscal year average balance

LIQUIDITY

A portion of the portfolio shall be invested in instruments that can be liquidated with one day's notice to meet the Town's operating needs.

RISKS

No individual investment shall be undertaken that jeopardizes the capital position of the portfolio. All investments shall either bear the full faith and credit of the United States government or be fully collateralized or insured, as defined by the Virginia Security for Public Deposits Act, Sec.2.2-4400 through 2.2-4411 of the Code of Virginia or otherwise comply with the standards as described in this policy and Sec. 2.2-4500 through 2.2-4517 of the Code of Virginia.

This policy seeks to provide a more detail investment policy. In the absence of any issue or situation not specifically addressed by this policy; any action undertaken by the Director of Finance or their staff, will always be in compliance with the Code of Virginia.

Revision date: November 16, 2021

Glossary

AGENCIES: Securities issued by agencies of the U.S. Government and/or U.S Government-sponsored enterprises.

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR) The official annual report for the local government in Virginia. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting Schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

ASKED: The price at which securities are offered by the seller. Also called offer or offered price.

BANKERS' ACCEPTANCE (BA): A short term instrument that is an unconditional obligation of the accepting bank. A BA is a bank obligation that has at least the same credit strength as any CD issued by the same bank. BA's do not carry FDIC insurance. The accepting institution guarantees payment of the note, as well as the issuer.

BENCHMARK: A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

BID: The price offered by a buyer of securities. (When you are selling securities, you ask for a bid.) See Offer.

BROKER: A broker brings buyers and sellers together for a commission.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable and can be sold in a secondary market. Negotiable CD's are typically DTC eligible.

COLLATERAL: Securities, evidence of deposit, or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER: An unsecured promissory note with a fixed maturity of no more than 270 days. Commercial paper is typically sold at a discount from its face value but can be issued as interest bearing as well.

COUPON: (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

DEALER: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DELIVERY VERSUS PAYMENT: (DVP) There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

DERIVATIVES: (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

DIRECT ISSUE: Companies that issue their securities directly to the market- instead of through a broker/dealer. Typically, large corporations, i.e.: Commercial paper issuers.

DISCOUNT: The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DISCOUNT SECURITIES: Non-interest bearing money market instruments that are issued a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

DIVERSIFICATION: Dividing investment securities among a variety of securities types, Commercial paper, Bankers' acceptance or discounted governmental agencies, each providing an independent return.

DTC: Depository Trust Company

FEDERAL CREDIT AGENCIES: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small-business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to $100,000 per deposit.

FEDERAL FUNDS RATE: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

FEDERAL HOME LOAN BANKS (FHLB): Government sponsored wholesale banks (currently 12 regional banks) that lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA): FNMA, like GNMA was chartered under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FEDERAL RESERVE SYSTEM: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C., 12 regional banks and about 5,700 commercial banks that are members of the system.

GOVERNMENT NATIONAL MORTGAGEASSOCIATION (GNMA or Ginnie Mae): Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA, or FmHA mortgages. The term "passthroughs" is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL GOVERNMENT INVESTMENT POOL (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE: The price at which a security is trading and could presumably be purchased or sold.

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase—reverse repurchase agreements that establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

MATURITY: The date upon which the principal or stated value of an investment becomes due and payable.
MONEY MARKET: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

OFFER: The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

OPEN MARKET OPERATIONS: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

PORTFOLIO: Collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

PRUDENT PERSON RULE: An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state—the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

QUALIFIED PUBLIC DEPOSITORIES: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

REPURCHASE AGREEMENT (RP OR REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.
SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SEC RULE 15C3-1: See Uniform Net Capital Rule.

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations that have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

TREASURY BILLS: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

TREASURY BONDS: Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

TREASURY NOTES: Medium-term coupon bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

INCOME YIELD is obtained by dividing the current dollar income by the current market price for the security.

NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.